

NEW JERSEY REVIEW & ECONOMIC OUTLOOK FOR 2001-2002

Forecast Summary: *"The New Jersey economy has been so good for so long that any slowing may feel like a shock, but our economy is fundamentally sound"*

Joseph J. Seneca, Chairman, Council of Economic Advisors

NJ Summary:



As the national expansion slows, the New Jersey economy also will experience slower growth for 2001 and 2002.

Problem areas for the State include tight markets for skilled labor, continuing inflationary pressures (including rising fuel and home prices), low vacancy rates (offices) and softening retail spending.

Supporting continuing growth are substantial backlogs of non-residential construction including public construction projects, a diversified portfolio of vibrant growth industries (clusters), continued economic gains in the adjacent New York metropolitan area, and decreased reliance on manufacturing.

Summary: New Jersey Forecast (% Chg)

	2001	2002
Gross State Product (Current \$)	4.8%	5.0%
Personal Income (Current \$)	5.2%	4.7%
Retail Sales (Current \$)	3.7%	5.0%
Consumer Price Index (All Urban)	2.5%	2.5%
Total Non-Ag Employment	1.1%	1.2%



The U.S Outlook:

The new-year begins with widespread evidence of an economic slowdown along with increasing cost pressures. The consumer, still experiencing employer wage restraint and a stock market correction, is buying fewer new cars, fewer new and existing homes and spending at a slower rate at retail stores. Meanwhile households are facing rising prices triggered by volatile energy and food prices.

Businesses continue to face tight labor markets across the nation and rising labor costs, especially for employee health benefits. Over the past three years the strongest contributor to growth has been business investment with 13-15% increases. The near term outlook indicates less

stimulus from business investment, which is expected to grow at rates about 50% slower than previously.

At the moment indications are that the U.S. slowdown will not be severe or prolonged. Government policy is key to this point of view. Mounting Federal budget surpluses are available to finance a tax cut and/or countercyclical spending to supplement consumer expenditures. The current fiscal year Federal budget surplus is estimated at over \$180 billion.

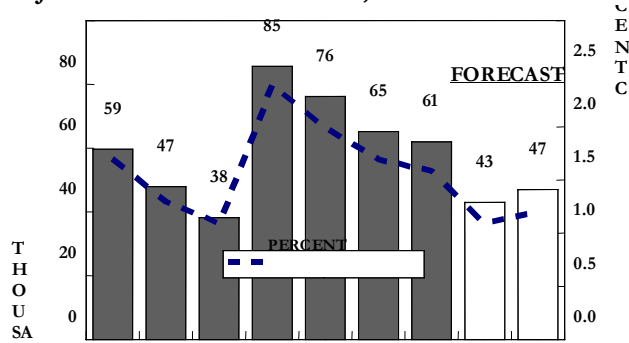
A healthy economy has also left state & local governments with the means to increase spending. Meanwhile, the Fed has begun to ease monetary policy, using lowered interest rates to help prolong the expansion.



Employment

Total nonfarm employment increased by 61,000 (1.6%) in 2000 to a record 3.9 million payroll jobs. This was the fourth consecutive year that New Jersey job growth exceeded 60,000. Slowing national and State economies will decrease the State's job growth to the 1% to 1.2% range in 2001 and 2002, closer to the 20-year trend growth rate of about 45,000 jobs per year. The average job increase will be about 43,000 in 2001, and 47,000 in 2002.

NJ NONAG EMPLOYMENT, ANNUAL CHANGE

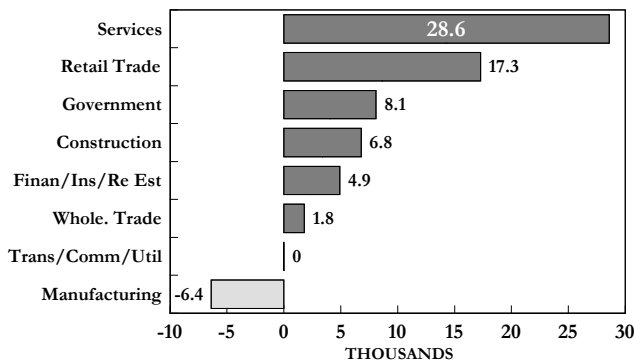


This job forecast will be sufficient to absorb trend-level labor force growth, leaving the unemployment rate in the 4% range in the forecast years, the lowest level since the late 1980's and in line with the national average. Labor

markets will remain especially tight in the emerging technology industries in the State where the shortage of high-skilled workers has been cited time and again by New Jersey business leaders as the primary constraint to business growth.

The services industries continued to lead in employment growth, with an average of 28,600 jobs added in 2000.

NJ EMPLOYMENT GROWTH x INDUSTRY, 1999-00 (11-month average, year-to-year change)



Retail trade was second with an employment gain of 17,300, followed by an increase of 8,100 government jobs, many of which were temporary federal government hires for the April 2000 Decennial Census.

Two industries; the engineering/consulting/research industry and computer and data processing services accounted for almost 10,000 of the 28,600 gain in the services sector. These industries are part of the Council's **information technology** and **research** "industry growth clusters".

Industry Clusters...

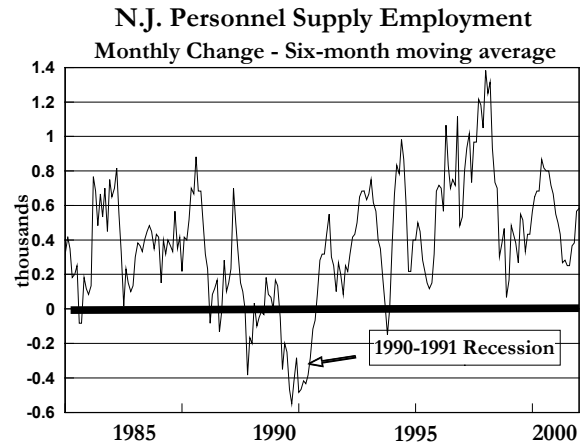
New Jersey's recent job growth has been concentrated in well-defined business clusters of economic activity - information technology (IT), R&D, pharmaceuticals, finance/insurance, logistics, and entertainment.

Clusters are groups of geographically concentrated industries including suppliers, providers of specialized infrastructure, producers of complementary products and/or companies linked by similar labor skills, technology or other common inputs.

These "growth" clusters added jobs at a 2.3% annual rate during the current expansion compared to a 1.3% rate for non-cluster industries. As the economy slows, the growth clusters are expected to continue adding jobs to offset declines in cyclically sensitive industries.

The personnel supply industry, a cyclically sensitive area in the sense that temporary help is most vulnerable in a downturn, continued to be one of the high growth

industries in 2000, adding over 6,000 jobs (6.2%). Nationally, the most recent six-month average of employment change in this sector dropped below zero for the first time since the 1990-91 recession. The chart below indicates a slowdown in temporary help in NJ, but the level of new hiring remains positive.



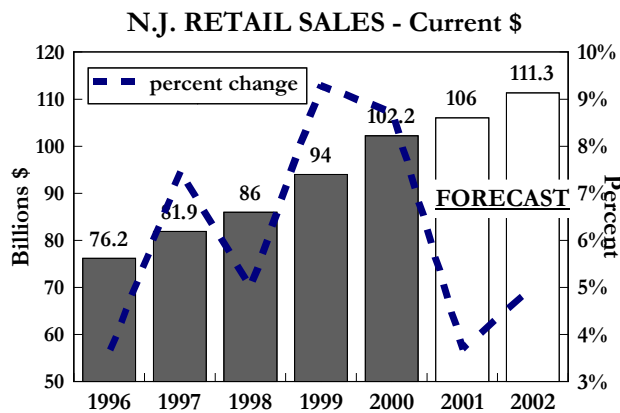
Income, Inflation and Consumer Spending

Personal incomes in New Jersey grew by 5.8% in 2000. Income gains were boosted by non-wage income such as investment returns and bonuses and continued job growth, especially in above average wage sectors.

However, inflation took a larger bite out of household income with the CPI rising 3.1% in 2000, due largely to energy price increases. Less energy, the CPI price increase was 2.4%, still below the average rate of inflation for the 1990's (2.7%). Despite recent increases in home prices, the outlook is for inflation remaining at 2.5% for the next two years.

Healthy income growth ignited a 16% increase in new vehicle registrations in 2000, an all-time record! For the year, the State added over 675 thousand new vehicles - 1 new vehicle parked in front of every 5 houses.

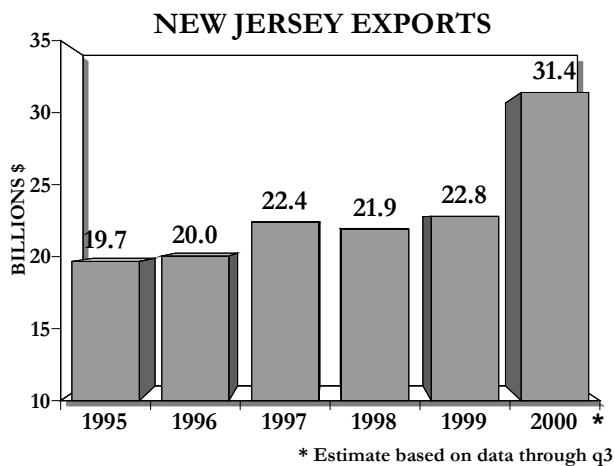
In another case of *deja vu* all over again, retail sales estimates have been revised upward. Apparently defying the limits of income growth, retail sales will post an increase in excess of 8% in 2000 following a 9% increase in 1999. Final sales (including e-sales) are expected to total \$102 billion for 2000, up from \$94 billion in the previous year. However, e-retail sales have not as yet had a significant impact on traditional retailers. National figures show rapid growth in e-sales, but these account for less than 1% of total retail sales.



With slower growth on the horizon and consumer sentiment on the decline, total sales will more closely parallel income growth for the next two years. Similarly, vehicle registrations will decline from current record levels.

Global Trade

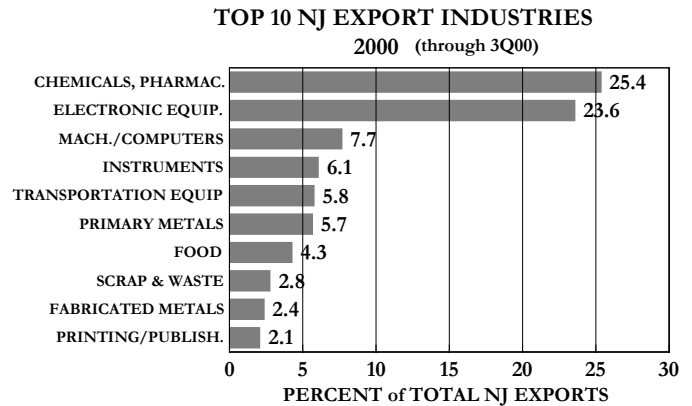
U.S. companies continued to expand their global presence during the past year and now account for 30% of world output (up from 26% in 1992). The largest (Dow Jones) companies now derive almost 40% of their revenues from overseas sources (up from 35% in 1988).



New Jersey-based companies fully participated in the global marketplace in 2000, posting a 38% increase in exports. NJ exports easily bested the 14% increase in national exports and topped export growth among all industrial states.

Almost all New Jersey manufactured product categories experienced export gains. Among the largest export

categories, chemicals (incl. pharmaceuticals), the number one State export, expanded by 20%, food exports grew by 29%, primary metals trade increased 60% and industrial machinery (computer equip) increased by 29%. But, the largest dollar increase in export trade was electronic equipment (including telecommunications equipment). Electronic goods in 2000 doubled exports from last year and now rank a close second behind chemical export trade.



By region, trade with the European Union and the Far East both posted gains of 50%. Exports to NAFTA (Canada and Mexico) grew by 30%, trade with the volatile Middle-East was flat, while trade with the Mercosur region (South America) fell by 47%.

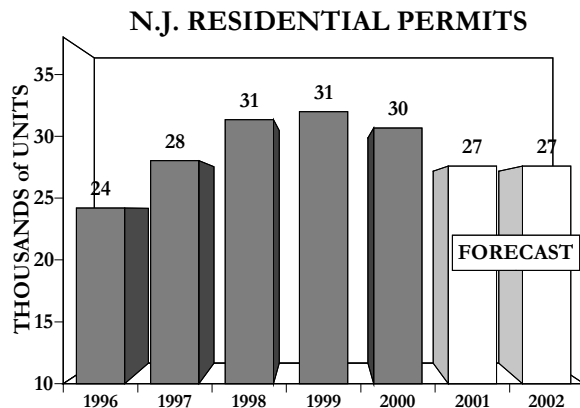
For next year, gains in exports will be far more modest based on recent downward revisions for global growth. However, even modest increases in foreign markets provide another economic cushion for New Jersey companies facing slower domestic/local markets.

Investing in New Jersey

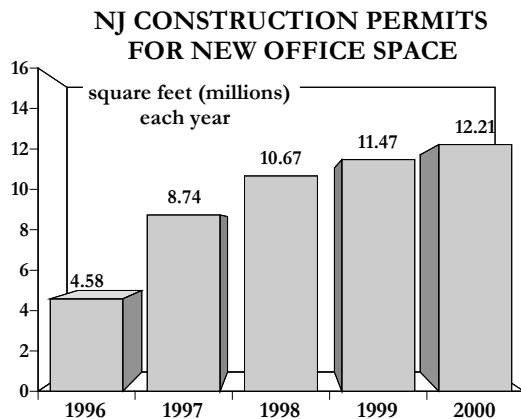
Eight years of economic expansion and business attraction has sustained construction for both new residences and places to work through 2000. Total construction contracts have increased an average of 10%+ over the past three years, rising to an estimated \$11.3 billion for 2000. As a result, the share of NJ Gross State Product originating from construction has risen from 2.8% in 1997 to 3.2%.

Residential building, which accounts for almost 40% of construction contracts, continues to face a supply-demand dilemma. Favorable demand conditions and employment and income growth clash with supply constraints that include stringent land use and zoning

policies. The bottom line for 2000 is a 4% decline in the number of new housing permits to approximately 30,600 units, but a 4% increase in the value of residential construction (which may reflect an increase in size and/or dwelling unit amenities). For 2001, supply constraints will continue to limit the number of new residential permits, but demand factors increase the value of residential investment by 3 to 4%.



Nonresidential building (offices, industrial, R&D, retail) comprised 48% of NJ construction in 2000, its largest share since 1989. Office construction, driven by low vacancy rates and expanding job opportunities in services and finance continued to sustain nonresidential building activity.

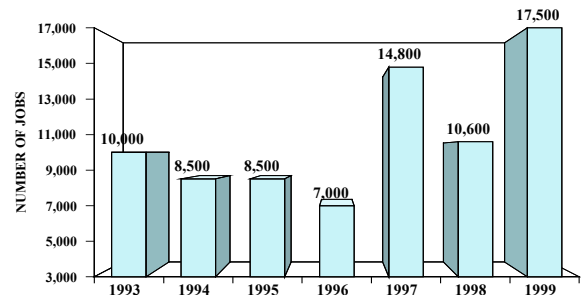


Contributing to the nonresidential building market has been the steady increase in the number of out-of-state companies announcing a move to New Jersey (see text box). The 2000 Business Relocation Survey identified 120 companies who made a firm commitment in the past year to invest in New Jersey. This was the largest number of companies recorded since the survey began in

The 2000 Business Relocation Survey...

profiles companies that made an initial investment by moving part or all of their business operations to New Jersey. The Survey is a key indicator in determining future conditions in the State's labor markets over the next one to three years. The latest Survey found:

- 120 companies who made a firm commitment to relocate to New Jersey. This was the largest annual number of new investors recorded since the survey began in 1984.



- These companies were projected to create record 17,500 direct jobs when fully staffed and operational.

- Seven out of every ten relocations fell into one of New Jersey's business growth clusters - high technology, healthcare, financial, and logistics.

- New Jersey continued to attract new businesses from a widening geographic area that included 19 states.

- 17 foreign firms were attracted to the State, up from 15 companies a year ago. Eight companies originated from the European Union, 4 from Japan, 3 from Canada, and 2 from Israel.

- Sixty percent of the business relocations originated from the neighboring states of New York and Pennsylvania.

- The largest contingent of long distance movers to New Jersey originated from technology centers in California, Massachusetts, and Virginia.

- Relocating businesses chose site locations in 18 of New Jersey's 21 counties. (The prime relocation destination for the year was Hudson County with 31 investments and over 8,600 projected jobs. Within the county, Jersey City was the location of choice with 22 new investments.

- The Middlesex-Somerset-Hunterdon labor market attracted 21 companies adding 1,300 jobs in central NJ, while Gloucester County led southern New Jersey with 14 site selections.

- 60% of the companies were granted some form of financial, labor training or site improvement assistance.

Copies of The 2000 Business Relocation Report are available from the NJ Council of Economic Advisors at 609-292-2423.

1984. With historically low vacancy rates business relocation activity created demand for new structures and contributed substantially to nonresidential construction and permit activity. However, with national and regional growth expected to ease over the next two years, office building permits (and office construction contracts) will adjust downward.

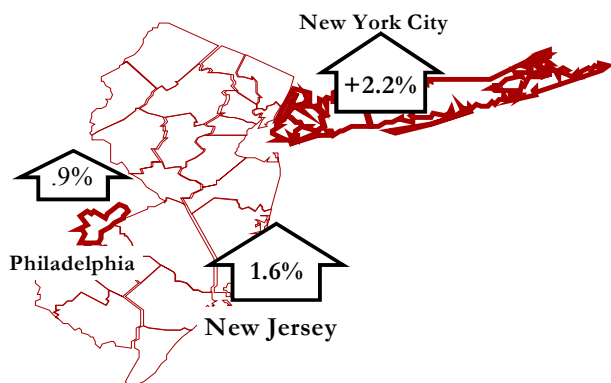


The Region

New York City continued to provide an economic stimulus to New Jersey in 2000. Employment in NYC increased by 2.2% in 2000, its 3rd consecutive year of +2% annual job gains and fastest in half a century. Since March 2000, the NYC economy has been growing more robustly than that of the nation.

Philadelphia was less of a factor in New Jersey's growth. The city added a modest 0.9% to its employment in 2000, only slightly better than Pennsylvania's statewide 0.7% gain.

Metropolitan Employment Growth 1999-2000



New Jersey Labor Markets

The five-county Newark labor area and the Middlesex-Somerset-Hunterdon labor market each grew by 2.1% in 2000 to lead all areas. Thanks in part to new investment in Newark, the Newark labor area reversed the trend of the last decade when the labor market's growth lagged the State average. As the State's largest labor area, Newark added over 20,000 jobs to pass the 1 million job mark in 2000.

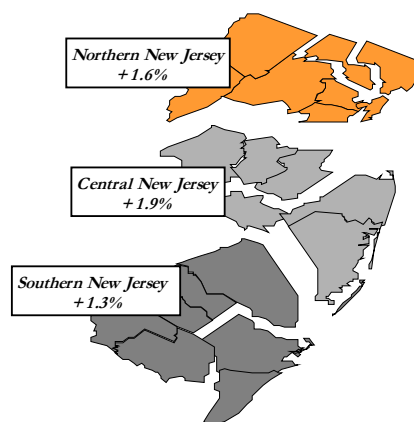
New Jersey Labor Markets Ranked by Percent Change in Employment* 1999 - 2000		
Area	Change 1999-2000	
	number	percent
Newark PMSA	21.1	2.1%
Middlesex-Somerset-Hunterdon PMSA	13.4	2.1%
Trenton PMSA	3.5	1.7%
Jersey City PMSA	3.8	1.5%
Monmouth-Ocean PNSA	5.5	1.5%
Atlantic-Cape May PMSA	2.5	1.4%
Camden Labor Area	6.4	1.3%
Bergen Labor Market Area	4.4	0.9%
Vineland-Millville-Bridgeton PMSA	0.4	0.7%
Passaic Labor Market Area	0.7	0.4%
<i>Total State</i>	<i>61.2</i>	<i>1.6%</i>

*Annual Estimate based on 11-month average

The Trenton (Mercer County) labor area, with employment growth at 1.7%, also exceeded the Statewide average of 1.6% for the year.

The Jersey City (Hudson County) labor market added about 4,000 jobs in 2000, almost twice the number projected in our mid-year outlook as a result of recently relocated finance and insurance companies. Job growth in 2001 will be driven by the development of office and residential space along the Hudson waterfront.

New Jersey Employment Growth by Region, 1999-2000*



The Atlantic-Cape May area employment grew by a modest 1.4% in 2000, but growth should accelerate in the next several years with the ongoing construction of the \$1 billion, 2,000-room Borgata hotel-casino to be completed by 2003, and a number of hotel-casino expansions likely to begin in 2001.

New Jersey Review & Economic Outlook: 2001 - 2002

<i>(Current \$ or Nos.)</i>	1996	1997	1998	1999	2000	Forecast	
						2001	2002
Gross State Product (bill)	\$279.2	\$294.1	\$319.2	\$335.5	\$355.6	\$372.7	\$391.3
Personal Income (bill)	\$247.4	\$260.7	\$278.3	\$291.5	\$308.4	\$324.4	\$339.6
Retail Sales (bill)	\$76.2	\$81.9	\$86.0	\$94.0	\$102.2	\$106.0	\$111.3
New Vehicle Registrations (000's)	533.1	537.6	550.6	582.5	675.7	641.9	642.0
Non-Resident.Contracts (mill)	\$2,962	\$3,618	\$4,098	\$4,670	\$5,230	\$5,230	\$5,492.0
Residential Building Permits (No.)	24,200	28,020	31,344	31,980	30,669	27,602	27,602
Consumer Price Index (All Urban)	111.3	113.9	115.7	117.9	121.6	124.6	127.7
<i>(Real 1992\$)</i>							
Gross State Product (bill)	\$250.9	\$258.2	\$275.9	\$284.5	\$292.4	\$299.1	\$306.4
Personal Income (bill)	\$222.3	\$228.9	\$240.5	\$247.2	\$253.6	\$260.3	\$265.9
Retail Sales (bill)	\$68.5	\$71.9	\$74.3	\$79.7	\$84.0	\$85.1	\$87.1
Non-Resident.Contracts (mill)	\$2,660.9	\$3,176.5	\$3,541.9	\$3,961.0	\$4,301.0	\$4,197.4	\$4,299.4
Employment (000's):							
Total Non-Farm	3,638.90	3,724.60	3,800.80	3,866.1	3,926.9	3,970.0	4,017.0
Manufacturing	483.5	481.9	478.0	466.5	460.2	453.4	447.0
Service Producing Industries	2,458.80	2,539.8	2,615.5	2,688.7	2,740.2	2,781.0	2,819.9
Unemployment Rate (%)	6.2%	5.1%	4.6%	4.6%	3.8%	4.0%	3.9%
% Change from previous year:							
	1996	1997	1998	1999	2000	Forecast	
						2001	2002
Gross State Product (Current \$, bill)	3.9%	5.4%	8.5%	5.1%	6.0%	4.8%	5.0%
Personal Income (Current \$, bill)	4.9%	5.3%	6.8%	4.7%	5.8%	5.2%	4.7%
Retail Sales (Current \$, bill)	3.7%	7.5%	5.0%	9.3%	8.7%	3.7%	5.0%
New Vehicle Registrations	4.8%	0.8%	2.4%	5.8%	16.0%	-5.0%	0.0%
Non-Resident.Contracts (mill)	6.9%	21.4%	13.3%	14.0%	12.0%	0.0%	5.0%
Residential Building Permits (No.)	12.6%	15.9%	11.9%	2.0%	-4.1%	-10.0%	0.0%
Consumer Price Index (All Urban)	2.9%	2.4%	1.6%	1.9%	3.1%	2.5%	2.5%
<i>(Real 1992\$)</i>							
Gross State Product (bill)	1.9%	3.2%	6.9%	3.1%	2.8%	2.3%	2.4%
Personal Income (bill)	1.8%	3.4%	5.1%	2.8%	2.6%	2.6%	2.1%
Retail Sales (bill)	0.8%	5.1%	3.4%	7.3%	5.4%	1.2%	2.4%
Non-Resident.Contracts (mill)	3.9%	18.6%	11.5%	11.8%	8.6%	-2.4%	2.4%
Employment (000's):							
Total Non-Farm	1.1%	2.4%	2.0%	1.7%	1.6%	1.1%	1.2%
Manufacturing	-2.8%	-0.7%	-0.8%	-2.4%	-1.4%	-1.5%	-1.4%
Service Producing Industries	2.1%	3.3%	3.0%	2.8%	2.0%	1.4%	1.4%

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